

Hanza Q2'21 Review: Solid Earnings Growth Likely to Continue

Redeye raises its Base case and forecasts following a solid Q2 report, showing significant margin improvements. While some areas are far from their potential profit level, Hanza generates its highest EBITA margin since at least 2017. As demand is likely to increase further, we believe profits are set for further expansions.

- EBITA 2021E and 2022E raised by 10% and 13%.
- Trading at 8x EBITA 2022E
- New Base case SEK 30 (25)

Hanza continues to improve its margins and strengthens our view of its cluster strategy. While the share is up by ~75% year-to-date, considering Hanza's improving track record, profit growth, and discount to peers, we believe there is room for more. We raise our Base case to SEK 30 (25).

Q2'2021

Actuals vs Forecast - 2Q21				
(SEKm)	2Q20	2Q21	2Q21E	Diff
Net sales	559	634	604	4.9%
<i>Growth YoY</i>	10.3%	13.4%	8.1%	
Main Markets	306	339	346	-2.2%
<i>Growth YoY</i>		10.8%	13.3%	
Other Markets	253	295	258	14.3%
<i>Growth YoY</i>		16.6%	2.0%	
Adj. EBITA	14.9	40.4	30.1	34.2%
<i>Adj. EBITA margin</i>	2.7%	6.4%	5.0%	
Main Markets	9.7	26.8	20.8	29.0%
<i>Adj. EBITA margin</i>	3.2%	7.9%	6.0%	
Other Markets	4.9	14.7	10.3	42.5%
<i>Adj. EBITA margin</i>	1.9%	5.0%	4.0%	
EBITA	-12.6	40.4	28.1	43.8%
<i>EBITA margin</i>	-2.3%	6.4%	4.6%	

Source: Redeye Research, Hanza

Sales grow by about 13% y/y to SEK 634m, which was approximately 5% above our forecast of SEK 604m. Organic growth was about 10%. In addition to a Covid-related rebound, new orders and projects in several regions and various segments contributed to the sales growth. However, despite solid y/y growth, sales and EBITA were dampened by shortages of materials and components. Also, Hanza's largest customer, active in the textile industry, remained at low levels. Thus, there is potential for larger volumes in the future.

Adjusted EBITA more than doubled relative to Q2 last year, which was heavily affected by the Corona crisis, to SEK 40.4m (14.9). The outcome was significantly higher than our forecast of SEK 30.1m and above the preliminary figure of SEK >35m. Both Main Markets and Other Markets came in above our expectations. Also, 70% of Hanza's businesses had margins of above 10% in Q2, highlighting the strengths of Hanza's cluster strategy.

Main Markets (Nordics and Germany) had an EBITA margin of 7.9%, almost in line with previous peak levels. Considering the low demand from Hanza's largest customer, a German business with exposure to the textile industry, we believe the cluster has improved its underlying efficiency, indicating the potential for even higher levels following a rebound in the textile market. Also, management sees great opportunities in the German market as the country opens following the pandemic.

Other Markets (Baltics, Central Europe, and China) had an EBITA margin of 5.0%, substantially below Main Markets, but still significantly improved from last year's 1.9%. The main reason for the difference in the margin is the maturity of the clusters. Nevertheless, the R12m margin is about 4%, which is the best level in Other Markets so far, indicating that the efficiency measures in immature clusters are paying off. Also, the Narva factory and the Central European cluster still had a negative impact from the pandemic.

During the first half of 2021, Hanza has decided to invest SEK ~65m in production facilities. The investments are broad regarding both technologies and regions, targeting Sweden, Estonia, and China. We believe the investments in increased production facilities are a clear sign that management is confident in larger volumes in the mid-term.

Despite appreciating by ~75% Year-to-date, Hanza is still trading at a discount to peers. Considering the solid operational performance lately, especially in this Q2, we believe Hanza is attractively priced.

Company	EV	Sales	EV/SALES			EV/EBIT (x)			Sales growth			EBIT margin		
	(local)	20A	20A	21E	22E	20A	21E	22E	20A	21E	22E	20A	21E	22E
Incap	222	106	2.1	1.7	1.5	18	12	10	50%	24%	12%	11.7%	14.5%	14.7%
Kitron	3 467	3 962	0.9	0.8	0.8	11	12	10	21%	3%	10%	7.8%	7.2%	7.5%
Nolato	24 565	9 359	2.6	2.2	2.0	23	19	17	18%	22%	8%	11.2%	11.5%	11.6%
Scanfil	525	595	0.9	0.8	0.8	12	12	11	3%	10%	4%	7.3%	6.7%	6.9%
Inission	701	1 059	0.7	0.7	0.6	15	16	11	8%	-2%	9%	4.5%	4.3%	5.7%
NCAB	9 182	2 115	4.3	3.1	2.9	52	30	28	19%	39%	9%	8.3%	10.6%	10.2%
Elos Medtech	1 735	580	3.0	2.3	2.1	30	16	15	-16%	29%	12%	9.9%	14.3%	13.8%
Median	1 735	1 059	2.1	1.7	1.5	18	16	11	18%	22%	9%	8%	11%	10%
Average	5 771	2 540	2.1	1.7	1.5	23	16	15	15%	18%	9%	9%	10%	10%
Hanza Holding	1 348	2 155	0.7	0.7	0.6	30	11	8	4%	9%	9%	1%	5%	6%

Source: Redeye, FactSet

Financial Forecasts

As the actual Q2 numbers came in above the preliminary figures while several business areas still suffered from the pandemic, we believe the underlying business is performing better than we previously thought. We raise our sales forecasts by ~2% for 2021 and 2022, which, combined with increasing our margin assumptions, results in a 13-14% raise of our EBITA forecasts.

We expect a rebound in both Main Markets and Other Markets as some areas still are negatively affected by the pandemic. Also, in Main Markets, we believe acquisitions will contribute to about 15% sales growth in H2 2021. We believe margins will continue to expand as demand picks up further and as more clusters get mature.

Estimate revisions Q2 2021

(SEKm)	2021			2022		
	New	Prev.	Change	New	Prev.	Change
Net sales	2359	2324	1.5%	2571	2525	1.8%
<i>Growth</i>	9%	8%		9%	9%	
Adj. EBITA	142	129	9.9%	172	152	12.8%
<i>Adj. EBITA margin</i>	6.0%	5.6%		6.7%	6.0%	
EBIT	122	107	13.2%	158	138	14.1%
<i>EBIT margin</i>	5.2%	4.6%		6.1%	5.5%	

Source: Redeye Research

Financial forecasts Base-case

(SEKm)	2020	1Q21	2Q21	3Q21E	4Q21E	2021E	2022E
Net sales	2155	567	634	582	576	2359	2571
<i>Growth YoY</i>	4.2%	-5.3%	13.4%	15.8%	16.6%	9.5%	9.0%
Adj. EBITA	70.0	28.5	40.4	36.3	37.0	142.2	171.8
<i>Adj. EBITA margin</i>	3.2%	5.0%	6.4%	6.2%	6.4%	6.0%	6.7%
EBIT	31.3	19.0	36.2	32.8	33.5	121.5	157.8
<i>EBIT margin</i>	1.5%	3.3%	5.7%	5.6%	5.8%	5.2%	6.1%

Source: Redeye Research, Hanza

Main Markets - Financial forecasts Base-case

(SEKm)	2020	1Q21	2Q21	3Q21E	4Q21E	2021E	2022E
Net sales	1165	301	339	316	318	1275	1421
<i>Growth YoY</i>	4.7%	-10.9%	10.8%	19.1%	24.7%	9.4%	11.5%
Adj. EBITA	51.0	19.0	26.8	24.1	24.8	94.7	112.6
<i>Adj. EBITA margin</i>	4.4%	6.3%	7.9%	7.6%	7.8%	7.4%	7.9%

Source: Redeye Research, Hanza

Other Markets - Financial forecasts Base-case

(SEKm)	2020	1Q21	2Q21	3Q21E	4Q21E	2021E	2022E
Net sales	990	267	295	266	257	1085	1150
<i>Growth YoY</i>	3.7%	2.0%	16.6%	12.0%	8.0%	9.6%	6.0%
Adj. EBITA	24.9	10.4	14.7	13.3	13.1	51.5	63.2
<i>Adj. EBITA margin</i>	2.5%	3.9%	5.0%	5.0%	5.1%	4.7%	5.5%

Source: Redeye Research, Hanza

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Rating	People	Business	Financials
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3p - 4p	99	76	37
0p - 2p	6	33	84
Company N	124	124	124

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